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SUBJECT: BRAZIL'S NEW ENGAGEMENT WITH CUBA

Classified By: COM: Michael E. Parmly: For reasons 1.4 b/d

¶1. (C) SUMMARY: Several recent developments point to Brazil's interest in building stronger bilateral ties with Cuba. The Brazilian government will increase export credits for its companies and will push for an audience with Fidel Castro during President Lula's upcoming visit. Petrobras has already started discussions with the GOC. Brazil's view is that changes in Cuba will be slow and gradual. End Summary.

¶2. (C) Acting P/E Counselor and POL officer met with Brazilian DCM Vilmar Coutinho on 21 November to discuss several developments that seem to indicate Brazil's interest in building stronger bilateral ties: An upcoming visit to Cuba by President Inacio Lula da Silva; Renewed interest from Petrobras on oil exploration; Noticeably bigger presence at this year's Havana International Trade Fair (FIHAV-07); Last-minute Cuban request for more Brazilian exports.

President Lula's Visit

¶3. (C) Coutinho said that President Lula had intended to make this visit for some time and confirmed that the above-mentioned developments were not coincidental, but rather part of the buildup for the visit. He explained that President Lula, unlike other Latin American leaders who have visited the island recently, was not interested in making a "photo-op" trip. According to Coutinho, President Lula wants a "substantive" visit, which would include concrete deliverables. This was essentially the reason President Lula used to explain the recent postponement of the visit to the Brazilian press, saying that his government needed more time to evaluate and fulfill the new Cuban requests -- made by Vice President Carlos Lage during the Iberoamerican Summit in Chile. However, Coutinho further explained, given that President Lula has a fond relationship with Fidel Castro, the Brazilian government is pushing for an audience with him as part of the visit.

¶4. (C) We suggested to Coutinho other potential reasons for the postponement of President Lula's visit: 1) Fidel Castro's current state of health may not be strong enough for an official, and public, visit; 2) Brazil could be concerned about potentially negative political fallout of a visit on the heels of the much-publicized spat between Hugo Chavez and the King of Spain. Coutinho did not dismiss either reason as

a possibility. Coutinho predicted that the visit would probably take place in the late December-early January timeframe.

Increasing Trade

15. (C) According to Coutinho, Brazil's bilateral trade with Cuba amounts to approximately USD 400 million, roughly 80% of which are Brazilian exports. He said the fact that Brazil won the "best pavilion" prize at FIHAV-07 is representative of his country's intention to increase trade credits for Brazilian companies to export to Cuba. He mentioned that the vast majority of Brazilian exports to Cuba were branded products -- which means they mostly go to Cuban hard currency stores, which few Cubans can afford. Few Brazilian exports to Cuba are in bulk, most notably sugar.

16. (C) Coutinho thought it appropriate to place some perspective on the size of the bilateral trade relationship, saying that "even if trade were to double (to USD 800 million), it would still be insignificant in terms of overall Brazilian trade." To that end, Coutinho referred to the Brazilian Trade Minister's remarks at FIHAV-07 regarding the presence of 40 Cuban specialists from GOC biotec company Labiofam, who are working on an anti-malarial drug program in the Brazilian Amazon, as a "preemptive gesture of goodwill in order to dissuade the Cubans from asking Brazil to import more from Cuba." Coutinho admitted Cuba has very little to offer that Brazilians are interested in.

Petrobras Coming to Cuba

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17. (C) Coutinho acknowledged press reports revealing that Petrobras was showing renewed interest in Cuba, and commented that a delegation came to Cuba in late September for discussions. He further said that Petrobras would be sending another group to the island, perhaps before the end of the year, for additional talks on deep-water exploration. When questioned as to why now, Coutinho admitted that, although Petrobras has always been known to operate independently despite being a state company, the government could be exerting some pressure on Petrobras. However, he assessed that the company would never go along with such pressures unless there were viable economic interests in Cuba. In his opinion, the mere fact that other major oil companies are already involved in Cuba could, in itself, be a strong enough incentive for Petrobras to come in.

Reflections on Ethanol

18. (C) Coutinho remarked that Cuba and Brazil had enjoyed a cooperative relationship on the issue of ethanol until Fidel Castro, in his late-April editorials, began to attack ethanol production in general, particularly in the U.S. but also in Brazil. Following the editorials, Coutinho commented that his Cuban counterparts abruptly became unwilling to broach the subject out of fear of contradicting Castro. He noted that while Castro's editorial raised some valid arguments, those arguments were 30 years old in Brazil, as they were exhaustively debated back when the country's ethanol policy was initially formulated.

No Major Changes on the Horizon

19. (C) Coutinho acknowledged his government's lack of involvement with dissidents in Cuba. He believes it is extremely unlikely that they could effect any significant changes. He thought a more plausible scenario that could destabilize the GOC would be one in which a sudden turn of events involving Hugo Chavez and Venezuela -- such as election defeat, a coup or assassination -- were to threaten

Cuba's economic subsidies. Under the current situation, Coutinho believed that changes in Cuba will continue to take place at what he referred to as "the current pace -- extremely and almost unnoticeably gradual."

Notice the Little Things

¶10. (C) With regard to U.S. concerns for human rights and political repression, Coutinho opined that the GOC is fully aware of those sensitivities and, while not improving the situation, is being overly cautious not to worsen it. He used the recent example of the Cuban military recruits who became fugitives and attempted to hijack a plane, killing a Cuban military officer in the process. Coutinho said the GOC was unusually lenient in not sentencing them to death, precisely because they want to avoid being portrayed as more repressive.

¶11. (C) Comment: Brazil is clearly ramping up its relationship with Cuba. There seem to be a combination of political and economic reasons. Politically, there is some ideological solidarity between President Lula and the GOC, but engagement with Cuba could also be part of a larger strategy to counter some of Hugo Chavez's influence. Economically, there is little corporate interest in the present Cuban market or its products, but Brazil's government seems to have concluded that the time has come to position its companies for the -- long-term -- future.

PARMLY